

HONORABLE JAMES L. ROBART

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

MICROSOFT CORPORATION,

Plaintiff,

v.

MOTOROLA, INC., et al.,

Defendants.

No. C10-1823-JLR

MICROSOFT'S MOTION FOR
PARTIAL SUMMARY JUDGMENT

NOTED: Friday, September 9, 2011

ORAL ARGUMENT REQUESTED

MOTOROLA MOBILITY, INC., et al.,

Plaintiffs,

v.

MICROSOFT CORPORATION,

Defendant.

MICROSOFT'S MOTION FOR
PARTIAL SUMMARY JUDGMENT

LAW OFFICES
DANIELSON HARRIGAN LEYH & TOLLEFSON LLP
999 THIRD AVENUE, SUITE 4400
SEATTLE, WASHINGTON 98104
TEL., (206) 623-1700 FAX, (206) 623-8717

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1 Microsoft respectfully moves against Motorola, Inc. (n/k/a Motorola Solutions, Inc.),
2 Motorola Mobility, Inc., and General Instrument Corporation (collectively “Motorola”) for
3 partial summary judgment that Motorola has breached its contractual commitments to make
4 available to Microsoft on reasonable and non-discriminatory (“RAND”) terms licenses to
5 patents Motorola has declared essential to two technology standards. Microsoft is not asking
6 the Court to rule at this time on the relief to which Microsoft is entitled as a consequence of
7 that breach.

8 **I. INTRODUCTION**

9 Motorola participated in the process to determine the standards for implementing
10 wireless networking and video coding/decoding. As a condition for that participation,
11 Motorola committed to licensing any patents essential to those standards on RAND terms and
12 conditions. Microsoft brought this lawsuit to enforce the contractual obligations that Motorola
13 made when it declared that certain of its patents are essential to the 802.11 and H.264
14 standards. The determination of Motorola’s breach of those obligations presents a
15 straightforward issue of law that does not turn on any genuine disputed issue of fact and
16 accordingly is ripe for summary judgment.

17 The need for prompt judicial relief in this case is both urgent and compelling. Motorola
18 has launched a barrage of litigation against Microsoft on two continents, accusing Microsoft of
19 infringing the very patents that it promised the relevant Standards Setting Organizations
20 (“SSOs”) it would license. Knowing that the law requires those patents to be licensed on a
21 RAND basis and that Microsoft could simply take a license to the patents and moot any patent
22 infringement lawsuits, Motorola embarked on a charade designed to avoid its RAND
23 obligations.

1 Pursuant to that strategy and as a predicate to its lawsuits, Motorola made a license
2 “offer” to Microsoft that flagrantly violated Motorola’s RAND commitments, that sought
3 royalties that are demonstrably and facially unreasonable and that no rational company in
4 Microsoft’s position could possibly have accepted. Once having tendered this illusory “offer,”
5 Motorola insists that it has done all that its RAND obligations require and now wants to
6 enforce its patents with injunctions against key Microsoft products. This behavior makes a
7 mockery of the commitments that underlie the work of SSOs.

8 Worse, Motorola hopes to stall this lawsuit for more than a year while concurrently
9 seeking to enjoin Microsoft’s sales. Thus Motorola has pushed forward in an International
10 Trade Commission (“ITC”) case against Microsoft, seeking to exclude from importation into
11 the U.S. Xbox consoles that allegedly use patents that Motorola committed to license on
12 RAND terms. And, more recently, Motorola launched an action in Germany, in which it
13 threatens an injunction against the continued sale of Microsoft products that include H.264
14 standard technology at issue here. Both Motorola’s ITC case and its case in Germany will
15 reach conclusion long before the now-scheduled trial in this case.

16 Motorola’s intent was apparent from the time it made its supposed “offer,” which was
17 nothing more than a set-up for the ensuing litigation. For that reason, Microsoft promptly
18 sought relief from this Court, seeking an adjudication of whether Motorola has met its RAND
19 obligations. This case preceded the later-filed Motorola lawsuits and is critical to protecting
20 Microsoft’s rights as a beneficiary of Motorola’s RAND commitments.

21 The undisputed facts here show that Motorola has violated its obligations. Motorola
22 has demanded from Microsoft a royalty rate of 2.25% of the end price of, among other
23 products, the Xbox 360 game console and laptops containing Microsoft Windows operating
24 system software. As applied to the end product prices, these demands are orders of magnitude
25

1 beyond RAND rates. Indeed, where, as here, end product pricing varies widely for reasons
2 entirely unrelated to any contribution of Motorola's technology to the products, a royalty of
3 this sort is inherently unreasonable.

4 One of Motorola's royalty targets, the Xbox 360, is packaged and sold in various
5 configurations. Prices vary widely because of the volume of data storage capacity, inclusion of
6 Microsoft's Kinect motion sensor technology, and the theme-based design, artwork, games and
7 accessories included with certain limited edition models. Motorola's demanded royalty is
8 unreasonable regardless of *what specific value* is attached to the technology—as it rises based
9 only on variations in product elements having nothing to do with any Motorola technology.
10 Based on Microsoft's refusal to submit to Motorola's unreasonable demands, however, the
11 Xbox now faces a potential exclusion from the United States and removal from European
12 shelves in the next eight months, long before this case is to come to trial.

13 Motorola also demanded a 2.25% royalty rate based on pricing for products for which
14 Microsoft supplies only software—such as laptops. This demand is not even limited to 2.25%
15 of the *Microsoft product* (such as the Windows 7 operating system). Even though the H.264
16 video compression technology is but a minor component of this *Microsoft* product, Motorola
17 demanded 2.25% of the price of the *end product containing that software* – e.g., *2.25% of the*
18 *retail price of a laptop or desktop computer*.

19 The present motion seeks only a determination of liability – whether Motorola has
20 violated its RAND obligations. If the Court agrees with Microsoft that breach has occurred,
21 the relief can be fashioned in a later phase of the case. In fact, the Court need not “value” the
22 Motorola technology – nor determine what a RAND rate *is* under the circumstances – to
23 determine that these demands were unreasonable. Motorola's demanded royalties and
24
25

conditions are facially unrelated to any contribution of Motorola's technology to the standards, or to the end product – and as an indisputable matter cannot be RAND.

II. RELIEF REQUESTED

Microsoft seeks partial summary judgment on the following issues and an order that:

1. Motorola entered into binding contractual commitments with the Institute of Electrical and Electronics Engineers (“IEEE”) and the International Telecommunications Union (“ITU”), committing to license its declared-essential patents on RAND terms and conditions.
2. Microsoft is a third-party beneficiary of Motorola’s commitments to the SSOs.
3. When offering a license to a third-party beneficiary of Motorola’s commitments to the SSOs, Motorola must offer RAND terms and conditions.
4. Motorola’s offers to Microsoft to license its H.264 and 802.11 declared-essential patents breached Motorola’s RAND obligations because no reasonable trier of fact could conclude that the offers were on RAND terms and conditions.

III. STATEMENT OF FACTS

A. The SSOs and the Standards at Issue in this Action.

Microsoft and Motorola are members of the IEEE and of the ITU.¹ The IEEE and its internal Standards Association (the “IEEE-SA”) developed the original 802.11 wireless networking standard and a number of amendments thereto (collectively, the “802.11 standard”).² The ITU Standardization Sector (the “ITU-T”) and two other SSOs (the International Organization for Standardization and International Electrotechnical Commission (collectively, “ISO/IEC”)) develop and maintain thousands of technical standards, including

¹ Motorola Answer and Counterclaims (Dkt. 68) at pp. 18-19, 22.

² *Id.* at pp. 6, 18.

1 ITU-T Recommendation H.264 (the “H.264 standard”), which relates to high compression
2 video coding and decoding.³

3 **B. Motorola Committed to Make Licenses Available on RAND Terms and**
4 **Conditions.**

5 In accordance with the SSOs’ relevant patent policies, Motorola provided written
6 assurances to both the IEEE and ITU that it would make licenses to its essential patents
7 available to potential implementers of the standards on RAND terms and conditions.

8 1. 802.11: Motorola’s RAND Commitment to the IEEE and Its Members.

9 The IEEE’s Intellectual Property Rights (“IPR”) Policy states that “IEEE standards may
10 be drafted in terms that include the use of Essential Patent Claims.”⁴ Relevant excerpts of the
11 IPR Policy are included in Appendix A. If “Essential Patent Claims”⁵ are to be included, a
12 disclosing patent holder is required either to state that it is unaware of any relevant patents or to
13 provide the IEEE with a Letter of Assurance. The patent holder may warn that it is not
14 prepared to offer RAND terms, in which case the IEEE may take steps to avoid the patented
15 technology. Otherwise, the Letter of Assurance must include either (a) a commitment that the
16 holder will not enforce any of its essential patents or (b):

17 [a] statement that a license for a compliant implementation of the standard will
18 be *made available to an unrestricted number of applicants* on a worldwide basis
19 without compensation or *under reasonable rates*, with reasonable terms and
20 conditions that are demonstrably free of any unfair discrimination.⁶

21 ³ *Id.* at pp. 22-23.

22 ⁴ Declaration of Christopher T. Wion in Support of Microsoft’s Motion for Partial Summary Judgment (“Wion
23 Dec.”), Ex. 1, § 6.2.

24 ⁵ An “Essential Patent Claim” is “any Patent Claim the use of which was necessary to create a compliant
25 implementation of either mandatory or optional portions of the normative clauses of the [Proposed] IEEE
Standard when, at the time of the [Proposed] IEEE Standard’s approval, there was no commercially and
technically feasible non-infringing alternative....” *Id.*, Ex. 1, § 6.1.

⁶ *Id.*, Ex. 1, § 6.2(b) (italics added).

1 The IPR Policy states that “[t]he assurance is irrevocable once submitted[.]”⁷ Obviously, if the
 2 patent holder could revoke its assurance, the promise would be meaningless and the patent
 3 holder would be free to pounce once market participants had become locked in to the standard.

4 Motorola has submitted numerous Letters of Assurance to the IEEE in connection with
 5 the 802.11 standard. In each Letter of Assurance, Motorola declared that it “will grant” or “is
 6 prepared to grant” “a license under reasonable rates [on a] non-discriminatory basis with
 7 reasonable terms and conditions to comply with the [Proposed] IEEE Standard.”⁸

8 2. H.264: Motorola’s RAND Commitment to the ITU and Its Members.

9 The ITU and ISO/IEC have established a similar IPR policy (*see* Appendix A).
 10 Holders of patents believed by them to be “essential” to implementing a standard
 11 Recommendation must file with the ITU a “Patent Statement and Licensing Declaration,” in
 12 which the patent holder is required to declare whether it will grant a license to its “essential
 13 patents” to “an unrestricted number of applicants on a worldwide, non-discriminatory basis and
 14 on reasonable terms and conditions[.]”⁹ If the patent holder is unwilling to make such a
 15 commitment, “the [Recommendation] shall not include provisions depending on the patent.”¹⁰

16 Motorola submitted several such Licensing Declarations to the ITU with respect to the
 17 H.264 standard in which Motorola declared that it either “will grant” or “is prepared to grant” a

18 license to an unrestricted number of applicants on a worldwide, non-
 19 discriminatory basis and on reasonable terms and conditions to make, use and
 20 sell implementations of the above document.¹¹

21 ⁷ *Id.*

22 ⁸ *Id.*, Ex. 2.

23 ⁹ *Id.*, Ex. 3, at p. 11.

24 ¹⁰ *Id.*

25 ¹¹ *Id.*, Ex. 4.

1 **C. Motorola Demands Unreasonable Royalties from Microsoft.**

2 1. Motorola's Demand Letters.

3 Last fall, Motorola sent two letters to Microsoft demanding unreasonable royalties for
4 802.11 and H.264 standard-compliant products. In its October 21, 2010, 802.11 demand letter,
5 Motorola confirmed its offer:

6 ... to grant Microsoft a worldwide non-exclusive license under Motorola's
7 portfolio of patents and pending applications having claims that may be or
8 become Essential Patent Claims (as defined in section 6.1 of the IEEE bylaws)
9 for a compliant implementation of the IEEE 802.11 Standards.... Motorola
10 offers to license the patents under reasonable and non-discriminatory terms and
11 conditions ("RAND"), including a reasonable royalty of 2.25% per unit for each
12 802.11 compliant product, subject to a grant back license under the 802.11
13 essential patents of Microsoft. As per Motorola's *standard terms*, the royalty is
14 calculated based on the *price of the end product (e.g., each Xbox 360 product)*
15 *and not on component software (e.g., Windows Mobile Software).*¹²

12 On October 29, 2010, Motorola sent its similar H.264 demand, stating:

13 Motorola offers to license the patents on a non-discriminatory basis on
14 reasonable terms and conditions ("RAND"), including a reasonable royalty, of
15 2.25% per unit for each H.264 compliant product, subject to a grant back license
16 under the H.264 patents of Microsoft, and subject to any Motorola
17 commitments made to JVT in connection with an approved H.264
18 recommendation. As per Motorola's standard terms, the royalty is calculated
19 based on the price of the end product (e.g., each Xbox 360 product, each
20 PC/laptop, each smartphone, etc.) and not on component software (e.g., Xbox
21 360 system software, Windows 7 software, Windows Phone 7 software, etc.).¹³

22 2. Microsoft Products Affected by Motorola's Unreasonable Demands.

23 a. The Xbox 360.

24 Each letter seeks a 2.25% royalty rate on every Microsoft Xbox 360 that Microsoft
25 sells. While the two demand letters together demand a total royalty of 4.5%, Microsoft expects

¹² *Id.*, Ex. 5 (italics added).

¹³ *Id.*, Ex. 6.

that Motorola intended to cap the total at 2.25%. Either way, this royalty is a gross deviation from Motorola's RAND commitments to the IEEE and ITU.

Microsoft currently markets its Xbox 360 S game console in six different configurations, at prices ranging from \$199 to \$449.¹⁴ These Xbox 360 variants and the corresponding royalty demands are summarized below in Table 1:

TABLE 1

Xbox 360 Version ¹⁵	Price	Royalty Demand	
		@ 2.25%	@ 4.5%
4 GB	\$199	\$4.48	\$8.96
4 GB (with Kinect)	\$299	\$6.73	\$13.46
250 GB	\$299	\$6.73	\$13.46
250 GB (with Kinect)	\$399	\$8.98	\$17.96
320 GB (Gears of War Ltd. Ed.)	\$399	\$8.98	\$17.96
320 GB (Star Wars Ltd. Ed., with Kinect)	\$449	\$10.10	\$20.21

Each version of the Xbox 360 has the *same* built-in wireless network adapter and the *same* video decoding capabilities.¹⁶ Every version of the Xbox 360 also comes with an Ethernet port that allows users to access the internet without any use of 802.11 wireless technology.¹⁷ The H.264 functionality allows the Xbox 360 to stream video from the internet.¹⁸ A user can play games on the Xbox 360 without using any 802.11 or H.264 technology.¹⁹ Some earlier versions of the Xbox did not include any such functionality.²⁰

¹⁴ Declaration of Roy Harlin ("Harlin Dec."), ¶ 3.

¹⁵ *Id.*

¹⁶ *Id.*, ¶ 4.

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.*, ¶ 5.

²⁰ *Id.*

1 The price variations reflected above in Table 1 are not related to any differences in
 2 elements implementing the H.264 or 802.11 standards.²¹ Increases above the base-level Xbox
 3 360 price are mainly a result of (a) increases in data storage capacity (4GB vs. 250GB vs.
 4 320GB), (b) inclusion of the Kinect function, and (c) for the two limited edition models,
 5 addition of theme-based design, artwork, games and accessories.²²

6 b. Other Products Affected by Motorola's H.264 Demand.

7 In addition to Xbox-related royalties, Motorola's October 29 demand letter seeks a
 8 2.25% royalty rate applied to the end price of "each PC/laptop, each smartphone, etc." alleged
 9 to contain Microsoft software code implementing the H.264 standard (such as the "Windows 7
 10 software").²³ This demand is even more egregious than the Xbox 360 demand.

11 With limited exceptions, Microsoft does not sell PCs, laptops, or smartphones;
 12 generally, it sells "component software." H.264-compliant software code is a small subpart of
 13 Microsoft's *software*. It is a minute component of the end product. But Motorola's demand
 14 explicitly states that the royalty is based on the price of the end product, not on the value of
 15 Microsoft's contribution to the end product ("not on component software"); not on the
 16 (necessarily smaller) contribution of any H.264-compliant technology in that software; and not
 17 on the (even smaller) alleged contribution by Motorola to the hundreds of patents essential to
 18 that standard.

19 Microsoft does not control the prices charged by the manufacturers or retailers of these
 20 end products that include the Microsoft software. For example, one popular retailer, Best Buy,
 21 sells 194 laptops with the same Microsoft Windows 7 Home Premium Operating System, with
 22

23 ²¹ *Id.*, ¶¶ 4, 6, 7.

24 ²² *Id.* See also <http://www.xbox.com/en-US/Xbox360/Consoles?xr=shellnav>.

25 ²³ Wion Dec., Ex. 6.

1 prices ranging from a \$2,049.99 Samsung to a \$279.99 Acer.²⁴ Applying Motorola's
 2 demanded 2.25% royalty rate across the sales prices of all of these laptops yields per-unit
 3 royalties from a high of \$46.12 to a low of \$6.30.

4 There is no connection between these royalty amounts and the contribution of any
 5 H.264 functionality (or of any--necessarily much smaller--contribution by Motorola to that
 6 functionality) to the value of the product. There is not even a relationship to the value of
 7 Microsoft's contribution to the end product. Microsoft contributes only the "component
 8 software" operating system (in this case, Windows 7), of which H.264 technology is a (much)
 9 lesser included element, of which, in turn, Motorola claims to contribute a fraction. In spite of
 10 being at most a fraction of a fraction of a fraction of the end product value and in spite of the
 11 lack of any connection at all between any Motorola technology and the product features that
 12 drive price, Motorola's letter expressly confirms that the Microsoft "component software" is
 13 not the royalty base; the price of the end product is. A demand of 2.25% of the value of
 14 Microsoft's software would be unreasonable and unjustifiable. A demand of 2.25% of a laptop
 15 price is nonsensical.

16 **IV. LEGAL ARGUMENT**

17 To establish its breach of contract claim, Microsoft needs to prove: a valid contract, a
 18 breach of a duty arising under that contract, and resulting damage.²⁵ "A court interprets a
 19 contract as a question of law."²⁶ Summary judgment is appropriate where "there is no genuine
 20 dispute as to any material fact and that the movant is entitled to judgment as a matter of law."²⁷

21 ²⁴ Wion Dec., Ex. 7.

22 ²⁵ *N.W. Indep. Forest Mfrs v. Dep't of Labor and Indust.*, 78 Wn. App. 707, 712, 899 P.2d 6 (1995).

23 ²⁶ *Johnson v. Allstate Ins. Co.*, 126 Wn. App. 510, 515, 108 P.3d 1273 (2005); *see also Knipschild v. C-J Recreation, Inc.*, 74 Wn. App. 212, 215, 872 P.2d 1102 (1994) ("[i]nterpretation of the terms of a contract is a question of law").

24 ²⁷ FRCP 56(a); *see Celotex Corp. v. Catrett*, 477 U.S. 317, 322, 106 S. Ct. 2548 (1986); *Galen v. County of Los Angeles*, 477 F.3d 652, 658 (9th Cir. 2007).

1 Material facts are those “that might affect the outcome of the suit under the governing law.”²⁸
 2 The moving party bears the initial burden of showing there is no material factual dispute and
 3 that it is entitled to prevail as a matter of law.²⁹ The non-moving party must then identify
 4 specific facts that show a genuine issue for trial.³⁰ “Bald assertions that genuine issues of
 5 material fact exist are insufficient,” nor can “a mere scintilla of evidence” withstand summary
 6 judgment.³¹

7 Summary judgment is appropriate here because, as a matter of law, Motorola had a
 8 contract obligation to make licenses available only on RAND terms and conditions and no
 9 reasonable jury could find Motorola’s royalty demands to be “reasonable.” Microsoft is
 10 entitled to an order that Motorola’s demands were not RAND, with the specific
 11 consequences—damages and/or injunctive relief or the setting of a RAND royalty—to be
 12 addressed either by the Court or by the parties in the future.

13 **A. Motorola Entered into Enforceable Contracts with the IEEE and ITU of which**
 14 **Microsoft Is a Third Party Beneficiary.**

15 Motorola’s commitments to the IEEE and ITU are binding contracts - the “bylaws of an
 16 association or corporation constitute a contract between the organization and the member (or
 17 stockholder, in the normal corporation).”³² Motorola agreed to comply with the ITU’s and
 18 IEEE’s RAND requirements in its letters of assurance and declarations.³³ Motorola
 19 acknowledges that Microsoft is a third party beneficiary.

20 _____
 21 ²⁸ *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S.Ct. 2505 (1986).

22 ²⁹ *Celotex*, 477 U.S. at 323.

23 ³⁰ *Cline v. Indus. Maint. Eng’g & Contracting Co.*, 200 F.3d 1223, 1229 (9th Cir. 2000).

24 ³¹ *Galen*, 477 F.3d at 658.

25 ³² *Evans v. Yakima Valley Grape Growers Assoc.*, 52 Wn.2d 634, 651, 328 P.2d 671 (1958), *citing Rodruck v. Sand Point Maintenance Comm.*, 48 Wn.2d 565, 295 P. 2d 714 (1956).

³³ Wion Dec., Exs. 2, 4.

1 Several courts have held that SSOs' IPR policies and guidelines, in conjunction with
 2 patent holders' licensing declarations, create binding contracts between the patent holder and
 3 the SSO.³⁴ In *Apple, Inc. v. Motorola Mobility, Inc.*, the court specifically found that
 4 Motorola's commitments to the IEEE related to the 802.11 standard created a contract
 5 enforceable by third party implementers of the standard:

6 Under the [IEEE's] policy, members are to submit a "Letter of Assurance" to
 7 the [IEEE] that includes a commitment to license essential patents under
 8 reasonable and non-discriminatory terms. A contractual obligation between the
 9 [IEEE] and Motorola was created by this policy. Motorola's membership in the
 10 [IEEE] and Motorola's Letters of Assurance and Intellectual Property Statement
 11 to the Institute in which it declared [certain patents] essential to certain
 12 standards and stated its willingness to license those patents on reasonable and
 13 non-discriminatory terms.

14 ...

11 Each [IPR] policy indicates that it will not adopt a standard, or at least will use
 12 alternative technology in the standard, if the owner of a declared-essential
 13 patent refuses to offer fair, reasonable and non-discriminatory licensing. Thus,
 14 the policies assume that members will agree to license essential patents on fair,
 reasonable and non-discriminatory terms and that once a member makes such a
 commitment, it is enforceable.³⁵

15 In a pending action between Motorola Mobility and Microsoft (Case No. 11-cv-3136
 16 (PSG) (N.D. Cal.)), Motorola has acknowledged that RAND commitments create binding
 17 contracts and give rise to duties to third party beneficiaries.³⁶ In that action, Motorola alleges

18
 19 ³⁴ See, e.g., *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178, 2011 U.S. Dist. LEXIS 72745, *30 (W.D.
 20 Wisc. June 7, 2011) (recognizing that implementers are third-party beneficiaries of contract between patent holder
 21 and SSO); *Ericsson Inc. v. Samsung Elecs. Co.*, 2007 U.S. Dist. LEXIS 29257 ("the FRAND obligation is
 contractual and binds all members" of the standard setting organization); *ESS Technology, Inc. v. PC-Tel, Inc.*,
 1999 U.S. Dist. LEXIS 23227, *4 (N.D. Cal. Nov. 4, 1999) (holding that third-party beneficiary of contract
 between an SSO and the defendant, an essential patent holder, could state a claim for specific performance of
 patent holder's agreement to license patents on RAND terms).

22 ³⁵ *Apple*, 2011 U.S. Dist. LEXIS 72745, *28-29 (emphasis added).

23 ³⁶ Wion Dec., Ex. 8, p. 1. See also *Wi-LAN, Inc. v. Research in Motion, et al.* (No. 2:08-cv-247-TJW (E.D. Tex.
 24 2008)) (in which Motorola alleged "Wi-LAN entered into an express and/or implied contract with the IEEE's
 25 members, or alternatively, with the IEEE to which IEEE members and others are third-party beneficiaries....");
 Wion Dec., Ex. 9, ¶ 74; *Research in Motion Limited v. Motorola, Inc.* (No. 3:08-cv-0284-G (N.D. Tex. 2008) (in
 which Motorola acknowledged "[a]s part of its participation in standards organizations, Motorola has declared the

1 that Microsoft's commitments to the SD Association (an organization promulgating memory
2 card storage standards)

3 create a duty on behalf of Microsoft to license the patents at issue on RAND
4 terms [and that] Microsoft breached its contract with the SDA by refusing to
5 offer to license the patents at issue to the contract's third-party beneficiary,
6 Motorola, on RAND terms.³⁷

7 Motorola has also said that, "in the Washington RAND Litigation, which is still ongoing,
8 Mobility has not disagreed with Microsoft that Microsoft is a third party beneficiary under
9 Mobility's commitments to the relevant SSOs."³⁸ This acknowledgement confirms what the
10 SSOs' IPR policies state: implementers of the standards are third party beneficiaries of the
11 RAND obligations.³⁹ Motorola's RAND commitments are binding. Microsoft is a third party
12 beneficiary of them.

13 **B. Motorola's RAND Commitment Precludes Motorola from Demanding an**
14 **Unreasonable Royalty.**

15 Motorola has agreed that licenses for its essential 802.11 patents will be

16 *made available to an unrestricted number of applicants on a worldwide basis*
17 *without compensation or under reasonable rates*, with reasonable terms and
18 conditions that are demonstrably free of any unfair discrimination.⁴⁰

19 An excessive royalty demand is the opposite. Instead of "making" the technology
20 "available" to *one and all* for a "reasonable" royalty, Motorola has demanded from "one"
21 (Microsoft) an unreasonable – indeed, exorbitant – royalty. Such a demand is an effort to use

22 existence of patents that it considers "essential" to a standard, and has agreed to license them on
23 "FRAND"...terms as required by standards organizations.") Wion Dec., Ex. 10, ¶ 3.

24 ³⁷ Wion Dec., Ex. 11, ¶¶ 93, 95.

25 ³⁸ *Id.*, Ex. 8, at p. 13 n. 8.

³⁹ See ITU-T Common Patent Policy, which provides, "a patent embodied fully or partly in a [Recommendation]
must be accessible to everybody without undue constraints. To meet this requirement in general is the sole
objective of the code of practice." Wion Dec., Ex. 3, at p. 8; see also IEEE IPR guide, noting that "[u]sers and
implementers may seek to enforce the terms of any Accepted Letter of Assurance." *Id.*, Ex. 12, ¶ 30.

⁴⁰ Wion Dec., Ex. 1, § 6.2 (italics added).

1 the power of inclusion in the standard to extract unreasonable royalties. It is the very conduct
 2 SSOs' IPR policies and patent holders' RAND commitments prohibit.⁴¹ As the court found in
 3 *Research in Motion, Ltd. v. Motorola, Inc.*:

4 If Motorola licenses only at exorbitant rates, it will force its competitors [like
 5 Microsoft] to increase prices in the downstream market in order to make a
 6 profit. This increase in prices for all products except Motorola's will harm
 competition.⁴²

7 It is also a breach of Motorola's commitment to the SSOs.⁴³

8 Even assuming that Motorola would eventually accept less, starting the conversation
 9 with an excessive demand made possible by the leverage of inclusion in a standard is a breach;
 10 at best, it is an effort to secure an improper negotiating advantage by abusing the power of the
 11 standard. It is a breach because it is the opposite of "making" the technology "available" to
 12 everyone for a "reasonable" royalty. It is a self-confessed "standard" practice of Motorola's
 13 that should be stopped now.

14 Motorola's RAND obligation extends to an "unrestricted number" of applicants—*i.e.*,
 15 its "standard" offer to an unrestricted number of prospective licensees must be RAND. Both of

16 ⁴¹ *Apple*, 2011 U.S. Dist. LEXIS 72745, *36 ("the licensing commitments that [SSOs] required of vendors were
 17 intended as a bulwark against unlawful monopoly"), citing *Broadcom Corp. v. Qualcomm*, 501 F.3d 297, 310 (3d
 Cir. 2007).

18 ⁴² *Research in Motion Ltd. v. Motorola, Inc.*, 644 F. Supp. 2d 788, 794 (N.D. Tex. 2008).

19 ⁴³ As described in the ABA's Standards Development Patent Policy Manual, a patent holder's "Licensing
 20 Commitment contains a description of the terms (such as "reasonable and nondiscriminatory" license terms) that a
 Participant agrees to offer to all Implementers of a Standard under the Participant's Essential Claims." American
 21 Bar Association, Section on Science and Tech. Law, Committee on Technical Standardization, *Standards
 Development Patent Policy Manual* (2007), Wion Dec., Ex. 13, p. 15 (underlining in original). "A RAND
 22 commitment means that the Patent Holder must grant or offer a license under its Essential Claims on terms and
 conditions that are reasonable and nondiscriminatory." *Id.*, p. 22; see also *Hon Hai Precision Indus. Co. v. Molex,
 23 Inc.*, No. 08-C-5582, 2009 U.S. Dist. LEXIS 9165, *2 (N.D. Ill. Feb. 9, 2009) (characterizing a patent holder's
 RAND obligation as requiring it "to offer patent licenses to others interested in implementing the [standard] on
 24 reasonable and nondiscriminatory terms"); *Potter Instrument Co. v. Storage Technology Corp.*, 1980 U.S. Dist.
 LEXIS 14348, *7 (E.D. Va. Mar. 25, 1980) (under ANSI's policy [requiring a license to be made available to
 25 applicants under reasonable terms and conditions that are demonstrably free of any unfair discrimination] patent
 holder must "agree to offer licenses to members of the affected industry on reasonable and nondiscriminatory
 terms as a prerequisite to the adoption of the industry-wide standard.").

1 the offers to Microsoft are labeled “standard.” Both are labeled “RAND.” Neither is close to
 2 being a RAND offer. Both are abuses of market power that would not exist without the
 3 standard or without Motorola’s commitment to offer RAND royalty terms to the world. *See*
 4 *Broadcom Corp. v. Qualcomm, Inc.*, 501 F.3d 297, 310-14 (3d Cir. 2007) (holding that a
 5 patentee should not be permitted to “hold-up” implementation of the standard and extract
 6 supracompetitive royalties, and noting “[i]t is in such circumstances that measures such as
 7 FRAND commitments become important safeguards against monopoly power”).

8 Inclusion of a patent in a standard broadens its market and thereby increases the
 9 holder’s pricing power beyond free market price leverage—this is inherent in the purpose of
 10 the standard: to create efficiency and ease of interoperability, making any technology that is
 11 within the standard more desirable. The standard disfavors alternative technologies that are not
 12 included in it (or in a competing standard). This increased market power is not a function of
 13 the patent holder’s innovation, but of inclusion in the standard. A dominant standard
 14 potentially reduces the availability of practical alternatives for downstream firms in the supply
 15 chain, conferring artificial market power on holders of included patents. RAND commitments
 16 are essential to offset these market effects. They require a universal offer of RAND royalties.

17 Motorola has argued at least twice – so far unsuccessfully – that it can demand an
 18 exorbitant royalty (here calling that offer its “standard” royalty charged to all) as long as it is
 19 ultimately willing to negotiate downward towards a RAND-compliant royalty (putting the lie
 20 to its own representation that it was offering its “standard” “RAND” terms).⁴⁴ In *Research in*
 21 *Motion* and in this case, the courts held that a valid claim of breach was stated by an allegation
 22 that a royalty *demand* was non-RAND.⁴⁵ These rulings were correct. Motorola must make

23 ⁴⁴ *See Research in Motion*, 644 F. Supp. 2d at 797; *Microsoft Corp. v. Motorola, Inc.*, No. 10-cv-1823 JLR, 2011
 24 U.S. Dist. LEXIS 73827, *14 (W.D. Wash. June 1, 2011) (Dkt. No. 66, p. 5).

25 ⁴⁵ *Id.*

1 licenses to its essential technology available on RAND terms, not demand the opposite.
 2 Because there can be no sensible dispute that a royalty of 2.25% of product prices that vary
 3 without reference to any Motorola technology is unreasonable, Motorola's breach is clear. The
 4 breach is aggravated in its insistence that the price of "component software" is not the royalty
 5 base for laptops and the like. That price is swallowed up by the much higher prices of the
 6 widely varying computers on which that software is installed. Expanding the rate base to
 7 include value to which Motorola makes no arguable contribution is unconscionable. "A
 8 royalty demand which is so high as to preclude acceptance of a license offer is, after all, not
 9 appreciably different from a refusal to license upon any terms."⁴⁶

10 At least one SSO, the Blu-Ray Disc Association ("BDA"), expressly recognizes that
 11 every licensing offer made by an essential patent holder must be on RAND terms and
 12 conditions.⁴⁷ The BDA's RAND obligations are set forth in its Bylaws, which state that:

13 Each member hereby agrees ... that it is willing to grant ... to any interested
 14 party ... a non-exclusive, non-transferable, world-wide licenses [sic] on fair,
 15 reasonable and non-discriminatory terms and conditions under any of the
 Essential Patents[.]⁴⁸

16 The Bylaws provide for arbitration of disputes "over whether the [patent holding member] is
 17 offering a license under its Essential Patent(s) on fair, reasonable and non-discriminatory terms
 18 and conditions."⁴⁹ In *Zoran*, the court interpreted the phrase "is offering" as follows:

19 ⁴⁶ *W.L. Gore & Assoc., Inc. v. Carlisle Corp.*, 529 F.2d 614, 623 (3d Cir. 1976) (recognizing that in contrast with
 20 the standards context, in the non-RAND context, "[a] patent empowers the owner to exact royalties as high as he
 21 can negotiate with the leverage of that monopoly"); *see also In re Independent Serv. Orgs. Antitrust Litig.*, 989 F.
 22 Supp. 1131, 1140 (D. Kan. 1997) (in the absence of a RAND obligation "[i]mposing a licensing duty would
 necessarily require judicial regulation of the royalty at which the [] patent would have to be licensed, for
 otherwise the patentee could negate the obligation by setting a rate so high that there would be no takers" and
 "that the [RAND] requirement of nondiscriminatory pricing directly conflicts with the basic tenet of patent law
 that a patent holder has an untrammelled right to selectively license its patent") (internal citations omitted).

23 ⁴⁷ *See Zoran Corp. v. DTS, Inc.*, No. 08-4655, 2009 U.S. Dist. LEXIS 6675 (N.D. Cal. Jan. 20, 2009)

24 ⁴⁸ *Wion Dec.*, Ex. 14, § 16(1).

25 ⁴⁹ *Zoran.*, at *9-10 (emphasis supplied).

1 The clause does not refer to disputes arising out of any and all alleged FRAND
 2 violations, but only to disputes over whether, at a particular moment in time, a
Member is or is not offering a particular license on FRAND terms.⁵⁰

3 The RAND (or FRAND) requirements under which *Zoran* was decided are substantially
 4 identical to those at issue here. Under that standard, the court ruled an arbitrable issue of
 5 breach arises with respect to every offer's compliance with RAND—which includes the first
 6 offer. The essentially identical IEEE and ITU IPR policies require nothing less. That the
 7 *Zoran* issue arose in connection with an arbitration makes no substantive difference.

8 Motorola's opening offer was required to be RAND.

9 **C. Motorola's Royalty Demand Bears No Meaningful Relationship to the Value of Its**
 10 **Technology.**

11 1. Motorola's Offer Is Unreasonable

12 It is not necessary to determine the actual dollar "value" of Motorola's technology to
 13 reach an indisputable conclusion that the royalty it has demanded is unreasonable. Consumers
 14 are paying different prices for the Xbox 360 console for reasons unrelated to any possible
 15 contribution of Motorola technology.

16 Table 2 below illustrates that Motorola's royalty demand is not tied to its claimed
 17 technological contribution. Additional memory capacity and the Kinect function can be
 18 purchased independently from the Xbox 360 console: a 250GB upgrade retails for \$99; the
 19 Kinect sensor for \$149.⁵¹ While each pair of consumers -- Consumers 1 and 2 and Consumers
 20 A and B -- ends up with essentially equivalent Microsoft products, Motorola seeks *materially*
 21 *lower royalties where the hard drive upgrade or Kinect sensor is sold separately.*

22
 23
 24 ⁵⁰ *Id.*, at *10 (emphasis supplied).

25 ⁵¹ Harlin Dec., ¶ 8.

TABLE 2

	Purchase	Total Price	Royalty Demand	
			@ 2.25%	@ 4.5%
Consumer 1	• 250 GB Xbox	\$299	\$6.73	\$13.46
Consumer 2	• 4 GB Xbox • 250 GB hard drive upgrade	\$298 (<i>\$199 + \$99</i>)	\$4.48	\$8.96
Consumer A	• 250 GB Xbox (with Kinect)	\$399	\$8.98	\$17.96
Consumer B	• 250 GB Xbox • Kinect sensor sold separately	\$448 (<i>\$299 + \$149</i>)	\$6.73	\$13.46

There is no basis for Motorola to charge Microsoft a royalty on added functions that do not use any 802.11 or H.264 technology, or on theme-based graphic design on some Xbox 360 models. A reasonable royalty must be based on some Motorola technology contributed to those standards, not on Microsoft's innovations or marketing devices.

Motorola's H.264 demand is even more outrageous than its 802.11 demand. It seeks a royalty based on the price of products Microsoft neither manufactures nor sells--a royalty

. . . calculated based on the price of the end product (e.g., each Xbox 360 product, each PC/laptop, each smartphone, etc.) and *not on component software* (e.g., Xbox 360 system software, Windows 7 software, Windows Phone 7 software, etc.).⁵²

The italicized phrase openly acknowledges that Microsoft does not manufacture or sell PCs, laptops, or smartphones, but provides only "component software," in which some portion of the code adheres to the H.264 standard specifications, of which Motorola's alleged contribution is, in turn, a modest element. A royalty of 2.25% of the end product price for "each PC/laptop" etc. is grossly disproportionate to any conceivable contribution of Motorola technology. As in the case of the Xbox 360, the royalty will vary because of features to which Motorola makes no contribution. But beyond that, for laptops, computers and smartphones, Microsoft does not even control pricing or added features the manufacturers include that drive

⁵² Wion Dec., Ex. 6 (italics added).

1 price—none of which relate to any differences in Microsoft’s software contribution.
 2 Manufacturers such as Dell, Nokia, Samsung, LG, Acer and HTC (among others) determine
 3 these components and the final pricing.

4 In the Best Buy example mentioned previously, Motorola’s demand would result in
 5 laptop royalties ranging from \$6 to \$46 – where the product price variations are related neither
 6 to any added contribution by Motorola *nor even to the contribution of Microsoft’s software*
 7 *technology* to product value.

8 Motorola’s demand is the equivalent of a supplier of a standardized component of a
 9 carburetor charging the carburetor maker a royalty based on the price of every car (whether a
 10 Yugo or a Ferrari) in which it is installed--not based on the value of the carburetor part, nor
 11 even, unreasonably, on the value of a carburetor incorporating the patented part. No
 12 reasonable fact finder could decide that such a royalty is reasonable.

13 2. Motorola’s Demands Violate the “Entire Market Value” Rule.

14 Motorola’s demands violate the “Entire Market Value” Rule. A patentee is permitted
 15 to base its request for reasonable royalties on the end value of the product containing the
 16 patented technology “only where the patented feature creates the ‘basis for customer demand’
 17 or ‘substantially create[s] the value of the component parts.’”⁵³ This Rule applies in a free
 18 market context. It applies with greater force where the patent holder enjoys the added market
 19 leverage of a standard, underscoring the unreasonableness of Motorola’s demands here.

20 Under this Rule, a patent holder must separate or apportion the implementer’s profits
 21 and the patentee’s alleged damages “between the patented feature and the unpatented
 22 features.”⁵⁴ Only where the “entire value of the whole machine, as a marketable article, is

23 ⁵³ *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011), *citing Lucent Technologies, Inc. v.*
 24 *Gateway, Inc.*, 580 F.3d 1301, 1336 (Fed. Cir. 2009).

25 ⁵⁴ *Id.*, at 1318.

properly and legally attributable to the patented feature” is it appropriate for the royalty to be based on the end product price.⁵⁵

As described above, the Xbox 360 (and every other implicated third-party product) contains many software and hardware components performing functions critical to its actual operation that do not practice the 802.11 or H.264 standards. All Xbox 360s include an Ethernet port for wired internet connection, making wireless functionality convenient but non-essential.⁵⁶ Likewise, Xbox users can play video games on the Xbox 360 without relying on any H.264 technology, which allows users to stream H.264-formatted video from the internet.⁵⁷ Motorola’s percentage royalty is inherently unreasonable and even violates a standard that applies outside the more restrictive RAND context--the Entire Market Value rule.

3. The Disparity Between Motorola’s Proposed Percentage-Based Royalty and the Flat Royalty Charged by other H.264 and 802.11 Licensors Results from Motorola’s Disproportionate Royalty Demand.

Motorola’s patented technology constitutes at most a fraction of the technology necessary for a compliant implementation of the 802.11 and H.264 standards. *I.e.*, Motorola’s proportionate royalty must start with the contribution *this fraction* of the standard makes to value. A large number of other patent holders have pooled their 802.11 and H.264 essential patents, and charge defensible, flat, per-unit rates for a license to the pooled patent portfolios—providing an illuminating basis for comparison to Motorola’s demand for license fees for its contribution to each standard.

MPEG LA, LLC administers a patent pool containing more than 275 patents essential to implementing the H.264 standard with over 25 licensors, including Apple, Panasonic, and

⁵⁵ *Id.*; see also *Lucent*, 580 F.3d at 1336-37.

⁵⁶ Harlin Dec., ¶ 4.

⁵⁷ *Id.*, ¶ 4, 5.

1 Sony.⁵⁸ Microsoft, too, is a member of MPEG LA, and has agreed to comply with its RAND
 2 obligations. The royalty charged by MPEG LA to license its H.264 patent portfolio ranges
 3 from \$0.00 to \$0.20 per unit depending on the number of units licensed.⁵⁹

4 Similarly, Via Licensing Corporation administers a patent pool relating to the 802.11
 5 standard. According to Via Licensing's website:

6 The licenses available under the program are intended to be offered to the entire
 7 market on Reasonable And Non-Discriminatory (RAND) Terms. As such, the
 license fees and similar terms are consistent amongst licensees.⁶⁰

8 Via Licensing charges a flat licensing fee per licensed product ranging from \$0.55/unit for 1-
 9 500,000 units to \$0.05/unit for 40,000,001 or more units per year.⁶¹

10 The stark contrast between the rates charged by the pools and the royalty fees that
 11 would result from Motorola's demands on Microsoft exists because there is no relationship
 12 between product pricing and Motorola's contribution to the value of the products. The H.264
 13 patent pool charges a maximum of \$0.20 per unit. For its H.264 declared essential patents,
 14 Motorola charges a maximum of \$10.10 per unit for the Xbox 360 (*see* Table 1, *supra*), or 50
 15 times the pool rate.

16 This evidence is not included here in order to show what a RAND rate *is* for Motorola's
 17 technology. This Motion does not raise that question. It is offered to corroborate what a
 18 RAND rate *is not*. It is not a rate that rises without reference to the proportionate contribution
 19 of the technology to the product. When a royalty is calculated as Motorola has demanded in its
 20 letters to Microsoft, it is miles outside the RAND ballpark.

21
 22 ⁵⁸ Wion Dec., Ex. 15.

23 ⁵⁹ *Id.*, Ex. 16. This rate is locked-in for five-year periods, and can be increased by not more than 10%, and only at
 the expiration of any five-year term.

24 ⁶⁰ *Id.*, Ex. 17.

25 ⁶¹ *Id.*

1 **V. CONCLUSION**

2 For the reasons set forth herein, Microsoft respectfully requests that this Court grant
3 Microsoft's Motion for Partial Summary Judgment and enter an order consistent with
4 Microsoft's (Proposed) Order submitted herewith.

5 DATED this ___ day of August, 2011.

6 DANIELSON HARRIGAN LEYH & TOLLEFSON LLP

7 By /s/ Arthur W. Harrigan, Jr.

8 Arthur W. Harrigan, Jr., WSBA #1751

9 Christopher Wion, WSBA #33207

Shane P. Cramer, WSBA #35099

10 T. Andrew Culbert, WSBA #35925

11 David E. Killough, WSBA #40185

MICROSOFT CORPORATION

12 1 Microsoft Way

Redmond, WA 98052

13 Phone: 425-882-8080

Fax: 425-869-1327

14 David T. Pritikin, *Pro Hac Vice*

15 Richard A. Cederroth, *Pro Hac Vice*

Douglas I. Lewis, *Pro Hac Vice*

16 John W. McBride, *Pro Hac Vice*

SIDLEY AUSTIN LLP

17 One South Dearborn

Chicago, IL 60603

18 Phone: 312-853-7000

19 Fax: 312-853-7036

20 Brian R. Nester, *Pro Hac Vice*

Kevin C. Wheeler, *Pro Hac Vice*

21 SIDLEY AUSTIN LLP

1501 K Street NW

22 Washington, DC 20005

23 Telephone: 202-736-8000

24 Fax: 202-736-8711

25 Counsel for Microsoft Corporation

APPENDIX A
IEEE-SA Standards Board Bylaws, Section 6.2
(Excerpts)⁶²

IEEE standards may be drafted in terms that include the use of Essential Patent Claims. If the IEEE receives notice that a [Proposed] IEEE Standard may require the use of a potential Essential Patent Claim, the IEEE shall request licensing assurance, on the IEEE Standards Board approved Letter of Assurance form, from the patent holder or patent applicant. The IEEE shall request this assurance without coercion.

A Letter of Assurance shall be either:

a) A general disclaimer to the effect that the Submitter without conditions will not enforce any present or future Essential Patent Claims against any person or entity making, using, selling, offering to sell, importing, distributing, or implementing a compliant implementation of the standard; or

b) A statement that a license for a compliant implementation of the standard will be made available to an unrestricted number of applicants on a worldwide basis without compensation or under reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination. At its sole option, the Submitter may provide with its assurance any of the following: (i) a not-to-exceed license fee or rate commitment, (ii) a sample license agreement, or (iii) one or more material licensing terms.

If, after providing a Letter of Assurance to the IEEE, the Submitter becomes aware of additional Patent Claim(s) not already covered by an existing Letter of Assurance that are owned, controlled, or licensable by the Submitter that may be or become Essential Patent Claim(s) for the same IEEE Standard but are not the subject of an existing Letter of Assurance, then such Submitter shall submit a Letter of Assurance stating its position regarding enforcement or licensing of such Patent Claims....

The assurance is irrevocable once submitted and accepted and shall apply, at a minimum, from the date of the standard's approval to the date of the standard's withdrawal.

⁶² See Wion Dec., Ex. 1 for complete document.

Common Patent Policy for ITU-T/ITU-R/ISO/IEC
(Excerpts)⁶³

The following is a “code of practice” regarding patents covering, in varying degrees, the subject matters of ITU T Recommendations, ITU-R Recommendations, ISO deliverables and IEC deliverables (for the purpose of this document, ITU-T and ITU-R Recommendations are referred to as “Recommendations”, ISO deliverables and IEC deliverables are referred to as “Deliverables”). The rules of the “code of practice” are simple and straightforward.

Recommendations | Deliverables are non-binding; their objective is to ensure compatibility of technologies and systems on a worldwide basis. To meet this objective, which is in the common interests of all those participating, it must be ensured that Recommendations | Deliverables, their applications, use, etc. are accessible to everybody.

It follows, therefore, that a patent embodied fully or partly in a Recommendation | Deliverable must be accessible to everybody without undue constraints. To meet this requirement in general is the sole objective of the code of practice. The detailed arrangements arising from patents (licensing, royalties, etc.) are left to the parties concerned, as these arrangements might differ from case to case.

This code of practice may be summarized as follows:

1. The ITU Telecommunication Standardization Bureau (TSB), the ITU Radiocommunication Bureau (BR) and the offices of the CEOs of ISO and IEC are not in a position to give authoritative or comprehensive information about evidence, validity or scope of patents or similar rights, but it is desirable that the fullest available information should be disclosed. Therefore, any party participating in the work of ITU, ISO or IEC should, from the outset, draw the attention of the Director of ITU-TSB, the Director of ITU-BR, or the offices of the CEOs of ISO or IEC, respectively, to any known patent or to any known pending patent application, either their own or of other organizations, although ITU, ISO or IEC are unable to verify the validity of any such information.

2. If a Recommendation | Deliverable is developed and such information as referred to in paragraph 1 has been disclosed, three different situations may arise:

2.1 The patent holder is willing to negotiate licences [sic] free of charge with other parties on a non-discriminatory basis on reasonable terms and conditions. Such negotiations are left to the

⁶³ See Wion Dec., Ex. 3 for complete document.

1 parties concerned and are performed outside ITU-T/ITU-
2 R/ISO/IEC.

3 2.2 The patent holder is willing to negotiate licences [sic] with
4 other parties on a non-discriminatory basis on reasonable terms
5 and conditions. Such negotiations are left to the parties
6 concerned and are performed outside ITU-T/ITU-R/ISO/IEC.

7 2.3 The patent holder is not willing to comply with the
8 provisions of either paragraph 2.1 or paragraph 2.2; in such case,
9 the Recommendation | Deliverable shall not include provisions
10 depending on the patent.

11 3. Whatever case applies (2.1, 2.2 or 2.3), the patent holder has to
12 provide a written statement to be filed at ITU-TSB, ITU-BR or the
13 offices of the CEOs of ISO or IEC, respectively, using the appropriate
14 "Patent Statement and Licensing Declaration" form. This statement must
15 not include additional provisions, conditions, or any other exclusion
16 clauses in excess of what is provided for each case in the corresponding
17 boxes of the form
18
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25

CERTIFICATE OF SERVICE

I hereby certify that on August 18, 2011, I electronically filed the foregoing document with the Clerk of the Court using the CM/ECF system, which will send notification of such filing to the following:

Attorneys for Defendants Motorola Solutions, Inc., Motorola Mobility, Inc., and General Instrument Corporation

Philip S. McCune
Lynn M. Engle
Summit Law Group

Steven Pepe
Jesse J. Jenner
Norman Beamer
Paul M. Schoenhard
Ropes & Gray

/s/ Linda Bledsoe
LINDA BLEDSOE